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National Association of Regulatory Utility Commissioners

Independent Power Producers: United States

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Wholesale Generation Competition in the United States

- Overview
  - How did the electric industry move from a series of vertically integrated monopolies to one with wholesale generation competition and independent power producers? By introducing four changes to the model:
    - Generation Entry: Independent power producers must have a legal right to enter the market
    - Transmission access: These power producers must have access to the utility-owned transmission system on a price and quality basis comparable to the utilities' own use
    - Regional transmission products: planning and operation of a regional transmission system
    - Bulk power reliability: must have central authority over reliability

Generation Entry

- Before 1978
  - – vertically integrated utilities provided most of their own generation
  - – Vertically integrated utilities sold at wholesale to transmission dependent utilities (those utilities that have no generation)
  - – Limited inter-utility sales
  - – Transmission access was limited

Generation entry, continued

- Public Utility Regulatory Policies Act of 1978
  - Enacted to encourage development of small production facilities which hopefully would reduce demand for fossil fuels
  - And, to overcome utilities' traditional reluctance to purchase power from nontraditional facilities
  - Under this law, a utility was forced to buy power from "qualifying facilities" (could not be primarily engaged in the sale of electric power) at "avoided costs" (the cost that the utility avoided having to pay a traditional provider)

Energy Policy Act of 1992

- In 1992, the United States Government enacted the Energy Policy Act of 1992
  - introduced wholesale generation competition and became the advent of independent power producers
  - Assigned authority of the bulk transmission system to the Federal Energy Regulatory Commission

Transmission access

- The entry of independent power producers in the United States was also dependent on the ability of the producer to gain non-discriminatory access to the bulk power transmission system
  - In a series of Orders issued in 1996 and 2000, The U.S. Federal Energy Regulatory Commission mandated that utility-owned transmission systems be openly accessible to wholesale generators
  - These order also separated the wholesale generation functions from transmission functions
  - Creation of the Regional Transmission Organization to oversee the day-to-day economic dispatch of generation to meet demand and operation of the transmission system

Retail Competition

- Given the trends in allowing competitors access to the wholesale markets, individual states began to investigate whether it would be feasible to allow retail market competition in their jurisdictions.
- In the 1990's a handful of states, including California, Pennsylvania, Texas, and New York introduced laws which permitted consumers access to competitive suppliers of generation.
- In some instances, but not all, the regulated utility's in those jurisdictions were required to divest themselves of the generating assets. Others were given the option to do so.

Energy Policy Act of 2005

- In August of 2003, a blackout spread over a large area of the Northeastern United States
  - Speculation that a lack of enforceable reliability standards allowed some Independent Power Producers to introduce power into an already weakened system
- Energy Policy Act of 2005 was enacted by the United States Government and mandated that:
  - The reliability of the bulk power system be ensured by the adoption of enforceable reliability standards
  - Focused on renewable energy
  - Eliminate the “must buy” provisions of the 1978 act.